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The Effect of Tariffs on Unemployment

BY

AN ECONOMIST

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In connection with the tariff controversy there is no question more important than that of the bearing of tariffs on employment, for unemployment is one of the gravest social troubles of the present time. Opinions upon this question may be divided into (1) those which are based upon a scientific analysis of the causes of unemployment, and (2) those which are not. Opinions of the former class I shall expound and examine first; afterwards I shall criticise the more naïve opinions.

I must begin my task by indicating the causes of unemployment which numerous investigations have revealed. Without a knowledge of these causes it is patently impossible to say how tariffs will affect employment; for if tariffs can affect it, they certainly must do so by operating upon these causes.

Causes of Unemployment

The unemployed may be broadly divided into the "employable" and the "unemployable." Now it is evident that tariffs neither make nor mar physical efficiency, or character, directly, and therefore that our inquiries must relate mainly to the unemployment of the "employable." I say "mainly," and not "exclusively," because many of the unemployable are recruited from the employable. An efficient man after long or repeated periods of searching vainly for work is apt to lose his efficiency. Privation undermines his strength, idleness eats into his habits of industry, and disappointment

breaks his spirit. Moreover, his deterioration is not unlikely to be hastened by the influence of many of his new associates and much in his surroundings. Therefore, in considering the problem constituted by the "employable" who are out of work, we are indirectly considering the problem of the "unemployable."

The chief causes of the unemployment of the efficient are commonly agreed to be three:

1. Temporary mal-adjustments of demand and supply.
2. Trade depressions.
3. The seasonal demand for labour of some industries.

We exclude for the present, observe, the under-employment which always accompanies a system of casual labour. We exclude this because, though the system of casual labour—of giving out work in jobs instead of giving continuous employment—means low wages as a rule, and frequently results in the submersion of the casual labourer in the stagnant pool of unemployables, the casual labourer is not strictly unemployed.

These three causes of unemployment, and the bearing of tariffs upon them, we shall now examine *seriatim*.

Temporary Mal-adjustments of Demand and Supply

This cause of unemployment has been explained by a modern writer thus: "The productive system has become so extremely complicated a unity, with such highly specialised parts, that it is not easy for a person to find his place in it. Moreover, it is the disposition of an economic system which has reached a high level of vitality to be perpetually changing. Alterations are occasioned by new demands which producers must adapt themselves to meet; they are necessitated also by new productive methods—new inventions, new forces, new ideas. And even

were demand rigid and the method of production stereotyped, society would not be stagnant in the sense of being devoid of internal movement. Factors in production would still find it incumbent upon them to work their way into their most appropriate groupings; and the fact that there is a new generation always growing up would prevent a completely satisfactory end from ever being fully attained. It being inevitable, therefore, that the process whereby labour is discarded from some tasks and attracted to others should be continuous, and that the discovery in a complete organic system of the demand that a particular workman is capable of satisfying should be difficult, it is not surprising that the body of unemployed employable labour is never wholly dissolved. The cause is change, and what might be termed the 'time-lag' or 'reaction time' peculiar to economic readjustments."

To this account I have nothing to add, except to emphasise two points. In the first place we must observe that it is only when change takes place at more than a certain rate that labour displacement is involved; for unrecruited industries contract naturally with the passing of generations from the industrial field. At first they contract slowly, but the rate of shrinkage increases because the young men grow up and no other young men replace them. In the second place we must observe that among the causes which necessitate readjustments of our labour-power, variations in foreign trade—that is in international division of labour—should be included.

In view of progress in productive methods and of changes in demand, and in view particularly of the fact that the bulk of modern production is for the future, and must therefore be guided by the anticipations of persons whose prophetic vision is not infallible, it would be a miracle indeed if at any moment the arrangement of our labour-power were so perfectly designed that it secured

the satisfaction of our needs in the exact proportion in which we desired to have them satisfied. And in the absence of this miracle there must be some efficient people temporarily unemployed.

How would Tariffs Affect the Degree of Industrial Mal-adjustment Normally Existing?

Tariffs would reduce unemployment if, other things being equal, they raised the speed of industrial readjustments or diminished the need for them. It has been contended that tariffs can be applied so as to diminish the need for these readjustments. This contention I shall now scrutinise.

There are some people who believe that it is practicable to frame a tariff system in such a way that it would steady the demand for labour. Their belief is that the changes which are constantly causing temporary mal-adjustments of demand and supply can be stopped, or at least checked, by the use of tariffs at the right moment. Thus, suppose that something happened to cause the contraction of one of our industries. Immediately the Government would respond by protecting it to such an extent that it would preserve its old size. So the path of our business life would be smoothed. Of course tariffs could not be used directly to check industrial expansions, but only to check industrial contractions. It is solely industrial contractions, however, which directly throw labour out of work.

Refutation of the Protectionist Argument that a Tariff could be used Scientifically to Reduce the Normal Degree of Industrial Mal-adjustment

Unfortunately the hope of putting an end to unemployment in this way is doomed to disappointment. The effects intended could not practically be brought about in most cases. And if they were brought about, the price

paid by the country for its steady employment would be enormous; at the same time as steady employment, industrial stagnation would tend to be brought about.

The effects intended could not be secured as a rule for many reasons. The checking of industrial change by means of import duties would substitute jolting change for slow, continuous change; and the former might easily occasion much more unemployment than the latter. Tariffs cannot be altered every month or every year; for, if they were, the sense of security would be banished from the business world and enterprise would be paralysed. It would be impossible, therefore, to start with a very small protective duty as soon as an industry showed signs of contracting, and raise it gradually by small increments until the tendency to contract on the part of the industry ceased. And suppose the depression of the industry were just a temporary one which would have been followed by unusual briskness; in this event the import duty would over-stimulate the reaction and, in the long run, in consequence cause more unsteadiness in trade than it prevented.

For another reason, too, the frequent revision of tariffs is not practical politics. Tariffs are intended to be used to bargain with, and a country cannot be bargaining with other countries every day and drawing up treaties to last only a few weeks. Tariff changes, then, would come every few years. When changes were made some mistakes would be made; for we have certainly not yet learnt how to measure economic forces so accurately that we should know exactly how much effect each duty would bring about. Mistakes would be inevitable, then; and they could not be remedied for some years. They would probably tend, on an average, to produce results worse than those produced by natural economic changes, because the latter results as a rule come gradually, whereas the

former would come suddenly. It certainly looks as if the attempt to steady employment by the use of tariffs would ward off few shocks to employment and add many others from which a Free Trade country is now exempt.

In View of the Existence of Foreign Tariffs, would the Adoption of an Extensive Tariff System by England Appreciably Increase the Degree in which England now Suffers from Industrial Maladjustments?

But do we not suffer all this now from the tariff changes of other countries? From these tariff changes we certainly suffer, but no foreign country can hurt us in this way with its tariff revisions to the extent to which we could hurt ourselves with our own tariff revisions if we had an extensive tariff system.

When a country imposes import duties, or alters its system of import duties, a readjustment of the relative sizes of industries in different parts of the world must take place. Now if the magnitude of the industries in the country in question is small in relation to the aggregate magnitude of the industries in other countries with which it trades, it must in bulk adapt itself to foreign conditions. That is to say, the mass of the readjustments rendered necessary by new import duties must take place in the country imposing the duties. That is to say, the damage inflicted by import duties and their alteration is ordinarily borne in bulk by the country imposing them.

This proof may perhaps be rendered more immediately convincing when it is put in another way, as follows. The country which adopts import duties or raises its import duties, reduces its foreign trade and reduces thereby by the same amount the aggregate foreign trade of all the countries with which it trades, taken

together. The foreign trade of each of these other countries is, therefore, bound to be reduced much less than the foreign trade of the country in question. If each of Smith, Brown, Jones and Robinson does a trade of £1,000 a year with each of the others, each does a trade of £3,000 a year, and in the event of Smith's trade being reduced 60 per cent., the average reduction of the trade of the others would obviously be only 20 per cent., other things being equal. Now it may be taken that the degree of industrial readjustment necessitated by a curtailment of a country's international trade is roughly proportional to the degree of that curtailment. The same argument applies to expansions of international trade. Hence a country which imposes import duties, or alters its import duties, is involved in consequence in far more industrial readjustments than any of the countries with which it trades.

Could Unemployment be kept down by Tariff Bargaining?

The argument in the section before this at once casts doubt upon the value of tariff bargaining. We have seen that the improvements, as regards the state of employment, which could be secured by smoothing proposed variations in a foreign tariff system must as a rule be small in comparison with the damage which would be inflicted upon ourselves by variations of our own tariffs. If we could be sure of reducing substantially the variations in the tariffs of the bulk of the trading world without much altering our own, the policy of tariff bargaining would assume a somewhat different complexion, though even then there would remain the enormous price paid by us for our success, which would render such success too costly a luxury. We should lose the advantage previously reaped from the foreign trade destroyed by our adoption

of an extensive tariff system; for it is hardly conceivable that a country could increase its foreign trade by placing new obstacles in its way with the intention of getting some of the obstacles removed for which other countries were responsible, particularly in view of the "most-favoured nation" clause. But we certainly could not be sure of effecting substantial, or even sensible, reductions in the tariff variations of the bulk of the trading world. Against heavy losses which are certain we have, therefore, to weigh problematical gains which do not seem likely to balance the losses, even under the most favourable conditions. No doubt there might be cases in which a tariff alteration made by some foreign country would be particularly hurtful to England, and in such cases we might score some advantage. But such cases are exceptional, and failure to secure by reciprocity or retaliation the desired modification of the foreign duty might easily leave us committed to a course of action which would double the original damage to ourselves.

Reasons for Supposing that Tariffs would aggravate the Temporary Mal-adjustments of Demand and Supply (which cause Unemployment) further Stated and Considered

If the foregoing criticism is sound, there would seem to be good reasons for supposing that a country by imposing tariffs tends to increase, rather than to decrease, that part of the unemployment of its labour which is due to mal-adjustment of demand and supply. How great the industrial disturbance must be in a country enjoying much foreign trade when it introduces a thorough-going tariff system will readily be realised. The imposition of a multitude of import duties by the United Kingdom would shake its position in all markets at once. Most

parts of our complicated business mechanism would be thrown out of gear, and many wage-earners would therefore be thrown out of work. For the percentage of unemployment thus caused there would be no remedy until our industries had adjusted themselves to the new conditions. And readjustment might take a long time, for dislocation would be general, and the inevitable destruction of capital in many industries would cause a collapse of confidence and consequent paralysis of enterprise, from which recovery might be slow. This, I repeat, will be readily realised; but the point to be specially emphasised now is that the spasm of industrial disturbance would recur in some degree, and sometimes in a high degree, at every tariff revision. And even if no great harm were done by any particular revision, there would always be the fear of it, and hence a tendency to *depression*—a matter to which I shall refer again. All highly protected countries which have much foreign trade feel these economic shocks when the times come for tariff revisions; but they would be much more severe in the case of the United Kingdom, as her foreign trade is so much more extensive than that of any of her foreign rivals.

But, it might be objected, tariff revisions meaning reductions, and so enlarged scope for trade, would surely inaugurate improved employment, though increased tariffs might magnify unemployment for a time. This contention is not wholly convincing. In some cases the sudden reduction of tariffs would cause grave economic shocks. The assertion that they would do so is one of the stock arguments used to prevent reform parties in protectionist countries from lowering tariffs much when they come into power. When tariffs are cut down, the swollen industries which they protected contract, and, as they contract suddenly, labour is thrown out of work, and it is not instantly absorbed by other industries. The

chances are that any changes in a protective system, whether they made it more or less restrictive, would aggravate the temporary mal-adjustment of demand and supply.

Does Protection so Speed Up, or Check, the Process of Readjustment that any Increase of Industrial Mal-adjustments is Counteracted?

I have argued above that under Protection there is more likely to be greater than less need for repeated industrial readjustments which cause displacements of labour. But might not Protection quicken the adaptability of the people, so that there would be less unemployment nevertheless? I have never met with an attempt to prove that it would, and I can see no reason for supposing that it should. If, on the one hand, scientific Protection succeeds in reducing the need of industrial readjustments, people will be less habituated to adapting themselves to change and will therefore react more slowly. If, on the other hand, scientific Protection fails in its object, it is hardly likely that the greater need for readjustments will so improve people's power to adapt themselves that there will be more gain than loss. Nobody could gravely argue that it is the duty of the Government to upset business so as to train people in the art of adapting themselves, to the end that business might be steadied.

Besides, once it became a recognised principle that the Government should use tariffs to prevent unemployment, there would be a disposition, when unemployment increased, to look to the Government to put things right with a tariff revision. Why seek fresh work and try to settle anew, when to-morrow the Government may remove the necessity? As a matter of fact, as we have seen, the

Government cannot remove the necessity; but it can raise false hopes by promises which will prevent the need from being met in the ordinary way.

Cyclical Unemployment

I now pass on to the matter of the unemployment caused by the recurrent periods of bad trade.

I head this section "cyclical unemployment" because, although it is impossible to classify the unemployed into (1) those who are without work owing to trade depression, and (2) those who would be out of work if there were no trade depression, we may conceive of a part of the percentage of unemployment as occasioned by one cause, and of another part as occasioned by another cause. Under "cyclical unemployment" we place the part caused by trade depression. I call it "cyclical unemployment" because trade depressions come in cycles varying in length from seven to ten years.

Statistics at once reveal the connection between unemployment and these recurrent attacks of bad trade. Thus the averages of the indices of unemployment in the United Kingdom published by the Board of Trade, which are made up on the basis of trade union returns of unemployment, were as follows in the periods stated:—

		Percentage of Trade-union Unemployment
1880–83 3	Trade good or fair	3·44
1884–87 3	" bad or depressed	8·10
1888–91 3	" good or fair	2·93
1892–95 3	" bad or depressed	6·78
1896–1902 6	" good or fair	3·11
1903–5 2	" depressed	5·55
1906–7 1	" good or fair	3·83

21 8

Why trade depressions recur in a somewhat rhythmical way it is not easy to say shortly, nor perhaps even at length. These more or less regular oscillations are found in the trade of every modern country. Their ultimate causes have yet to be fully explained, but we know enough of them to understand generally the nature of these trade oscillations. Among the fundamental constituents of the causes there are certainly psychological elements—that is to say, the causes include laws of the human mind and human emotions and volitions. When trade is good, enterprise is stimulated; when enterprise is stimulated, trade gets better; and when trade gets better, business men become more sanguine. As trade expands there is more credit. Now, before over-trading is carried very far a check may be imposed, and trade may slip back to the normal state, or may even slip beyond this to a state of depression. But if a sudden check is administered by some economic shock, the business world loses confidence, and a state of economic depression (which may be deep if the shock is great or the over-trading serious) at once supervenes. But in time the business world recovers its nerve; trade then becomes brisk again, and its briskness encourages further improvement, and the cyclical movement is launched afresh.

An objective event, such as a good harvest, may start the improvement; and an objective event of an unfavourable kind, such as a bad harvest, may start the depression. It may, indeed, be that the harvests are closely linked with this cyclical movement of trade through their reflection of the solar period on the one hand and their effect on demand on the other hand.

In the pit of depression enterprise is inadequate for the task of properly organising the labour-power of the community, to the end of securing, to the fullest extent possible, the satisfaction of the demands of the com-

munity. Paralysis of enterprise is a mark of these trade collapses. Labour is displaced in crowds, because demand is cut down by apprehensions about the future, and because previous to the depression, in the excitement of over-trading, a state of mal-adjustment of the labour of the various trading countries would have been induced; and the reorganisation of labour is retarded by the prevailing paralysis of enterprise.

Tariffs Tend to Increase rather than to Reduce Cyclical Unemployment

If tariffs are to reduce cyclical unemployment, it is evident that they can only do so by reducing the wave length of the trade cycle, or by reducing the average depth or duration of depression. Can they do this? They could only do so by diminishing on the whole the number or magnitude of the external economic shocks to which business is exposed; for it is obvious that they could neither shorten nor lengthen the solar period, nor (to any significant extent) strengthen the "recovery power" of a business community. Indeed, as regards this last point, it might be contended on the lines of the argument on p. 12 that the power to recover from depressions would be weakened, if it were affected at all, because business people would be induced to look to the State for the cure instead of to themselves.

Now it has been argued, and I think not unreasonably, that Protection tends to increase the amount of depression, if I may so express it, by increasing the amount of shock to which business is exposed. The argument has been expressed thus: "Depression of trade means a temporary dislocation of industry, accompanied by paralysis of enterprise. It results from any sudden interruption of the smooth course of events, whether the interruption proceeds from mistakes in anticipating demand, shortage of natural

supplies, financial collapses associated with unsound banking, or any other circumstance which is calculated to disturb industry to its detriment. The imposition of tariffs and their periodic revisions rank among these interruptions of industry which are provocative of trade depressions. Under present conditions, of course, those tariff changes abroad which do not lead as a whole to a substantial increase of trade are depressing to British industries, but the effect of these changes is as nothing compared with the effects which might be expected from the imposition of an extensive system of tariffs by this country and from its periodic revision. For foreign tariffs are not all altered at once, and they are not all altered in the same way, so that only sections of the foreign markets protected against us are actually shut more closely by each foreign tariff revision, and what we may lose under the tariff revision of one country we may recover under that of another. Moreover, we get some compensation for any enhanced restrictiveness of the tariffs of one country from the fact that the competition of that country with us in other markets is weakened, so that we trade more than we did before with other countries." I have not yet seen the argument contained in these lines refuted.

One might try to meet them by distinguishing between the raising and lowering of tariffs and attempting to show that the latter would make for prosperity. Now it should certainly be true ordinarily that the removal of tariffs from an industrial country, or their curtailment, would leave the business of that country as a whole with better prospects; but, as I have pointed out already (see p. 11), in many cases the removal of tariffs, or their curtailment, would leave such a mass of unsuitable productive arrangements for reorganisation that a severe shock followed by deep depression might be the immediate consequence.

In connection with the bearing of tariffs on trade cycles, we must notice that though the adoption of a tariff system by the United Kingdom might considerably augment the quantity of depression suffered by it in a given time, it could hardly lengthen or shorten the average cyclical period of its trade, in view of the magnitude of the world's trade in relation to that of the trade of the United Kingdom, combined with the fact that the wave length of trade cycles must be about the same all the world over, inasmuch as depressions are communicated by international trading connections, and the depressions in different countries are therefore made to synchronise approximately.

Would Reducing the Dependence of a Country upon other Countries Reduce the Cyclical Movements of its Trade?

There remains one protectionist argument relating to trade cycles to examine. I have stated above that the cyclical movements in trade in the various countries more or less synchronise. The synchronism is not difficult to explain. In the modern economic universe countries are closely bound together by the web of world-wide commerce. Hence the depression that starts in one country is communicated to others. May we not then spare ourselves some attacks of depression by severing our communications with other countries?

To this question it is not easy to give a definite answer, and it is not really important to do so because no statesman could seriously propose to sever the bulk of England's trading connections with the rest of the world. We could not now be independent in any large degree. And if we could, we should lose so enormously by being independent that, even were the trade cycle to disappear

entirely from our business, we should still remain immeasurably worse off than we had been before. Let protectionists work their will to the uttermost, England would still be left with so much trade that she could not escape trade depressions which started abroad. If proof is needed, it is to be found in the fact that world depressions seize countries dominated by the most restrictive trade policies, and hold them at least as closely gripped as England.

Besides, it must not be supposed that the large isolated country would suffer less from cyclical unemployment than modern interconnected trading countries. The isolated country would escape the shocks originating abroad, but when shocks originated at home it would feel the loss of the outside markets which had formerly relieved it of some part of the effect of these home shocks. Thus a country which depends for its food on home produce may expect less regular supplies than a country which depends on world harvests, since world harvests fluctuate less than the harvests of any one country, as we should be led to guess from the law of error. The economic conditions of a country brought directly under the influence of world markets would certainly be steadier than those of the isolated country, were it not that the former might be involved in more risky undertakings reaching further into the unknown than the latter. But, in spite of these risky undertakings, it is not unlikely that trade would be less stable in the isolated country than in the other under modern conditions. And the isolated country would certainly be the worse off economically and socially when other things were taken into account, such as the stimulus imparted by foreign example and emulation, and the low cost at which it could import many goods which could not be obtained at home or could only be produced with comparative difficulty.

Seasonal Unemployment

No words are needed to prove that the seasonal variations in the demand for labour on the part of some industries are among the causes of unemployment. The connection between seasonal demand for labour and unemployment may be read from the following figures, which have been selected as examples and averaged over a period which may be taken as typical:—

Percentage Proportion of Members of Trade Unions in the United Kingdom Unemployed at End of each Month (according to Returns made to the Board of Trade)

Monthly Mean for Years 1895-1904

Month.	All Trade Unions making Returns.	Building Trades (Carpenters and Plumbers only).	Metal, Engineering and Shipbuilding Trades.	Printing and Bookbinding Trades.
January ...	4·7	4·5	5·8	4·6
February ...	4·4	4·5	5·3	4·2
March ...	3·8	3·5	4·6	3·8
April ...	3·8	2·7	4·5	4·1
May... ...	3·7	2·5	4·3	4·6
June ...	3·7	2·8	4·4	4·6
July... ...	3·7	2·6	4·4	3·9
August ...	4·1	2·4	4·7	5·8
September ...	4·3	2·7	5·3	5·3
October ...	4·2	3·1	5·6	4·0
November ...	4·1	3·5	5·6	2·7
December ...	4·7	4·7	6·2	3·9

Slackness does not appear in all trades at the same season, we observe; for instance, it is felt in August and September in the printing and bookbinding trades, in the winter by the building trades, and in the summer by the colliers.

Protection and Seasonal Unemployment

Not even the most ardent protectionists could contend that import duties would have an appreciable effect on seasonal unemployment. It has, indeed, been suggested that only industries which offered a not undesirable life to the operative should be fostered by Protection, and that in this way industries dangerous to health, or degrading to the workpeople, should be indirectly discouraged. But obviously the degree of suppression of the seasonal trades which could be brought about indirectly by the protection of all other industries would be very small in comparison with the magnitude of the means. Steam-hammers may be used to crack walnuts, but it is not worth while to construct them for that purpose alone. And many of the seasonal trades, since they are not exporting trades, could not be appreciably suppressed in this manner—for instance, the building trades. Besides, from the discouragement of some of the seasonal trades we should lose heavily; few who care for their country would like to enforce a great shrinkage of our agriculture, for example.

Conclusion of First Part

This completes our examination of those views regarding the bearing of tariffs on unemployment which are supported by reference to the real causes of unemployment. *We find generally that tariffs are more likely to increase than to diminish unemployment.* Whether this conclusion is in accordance or in conflict with statistical evidence we shall consider later (see pp. 29-34).

I now pass on to consider those views which imply erroneous notions of the causes of unemployment.

The Fallacy of Enlarging the Home Market

From the man who is taking his first steps in tariff argument one always receives the following solution of

the problem of unemployment. If men are out of work, to put an end to their idleness it only needs to give work to them instead of to foreigners; and at most the expense of so doing will not exceed the difference between the cost at which they can do our work and the cost to us at which foreigners can do it.

The flaw in this argument in its crudest form consists in the fact that the obligation to pay for what we buy from foreigners is overlooked. As we must pay for value with value, that is, with something which has cost labour, ceasing to make certain purchases abroad involves ceasing to produce at home the things exported to pay for such purchases, and therefore depriving some people of work. The cure for unemployment proposed in this protectionist argument consequently means finding Peter a job by squeezing Paul out of work, and, to make all fair, squeezing out Peter to restore Paul.

Meeting the Objection—Paying Foreigners in Money

Protectionists have met this objection in two ways. By some of them it is explained that both Peter and Paul can be kept in work if only we pay for our imports with money instead of with goods, which we are said to be at liberty to do. If we paid foreigners in money, Protection would secure a double benefit, it is affirmed, for we should pay away less money and find full employment for all our labour, while enjoying the same quantity of goods.

But clearly this reasoning is through and through unsound. Money consists (1) in bullion, or (2) in credit documents, such as bank notes, cheques and bills of exchange, which are promises to pay bullion. If we pay with promises we may be sure that they will not be taken in ultimate discharge of our debts. If we do not

pay in goods we must pay with bullion, at once or eventually. Now, to get bullion, a country which possesses mines at home must use labour in mining it, while a country which has no mines at home must produce goods to pay for the gold imported. If we put on import duties to keep out foreign goods, less bullion would be needed to pay for our reduced imports (assuming that we insisted on paying in bullion and not in goods), and, therefore, the labour originally employed in mining the bullion previously exported, or making the goods exchanged for it, would be thrown out of work.

This argument carries one line of defence, but the more subtle protectionist may find yet another in reserve. He may retort, Why not go on acquiring the bullion which used to be exported and keep it at home, and so avoid displacing any labour when some of the unemployed are given employment by the protection of home industries? A sufficiently effective answer would seem to be: If the course recommended be possible, why not use the unemployed to mine more gold in countries with gold mines, or to manufacture exports to exchange for more gold in countries without gold mines, instead of taking the roundabout course of keeping some foreign goods out of the country? If the one course is possible the other is.

Meeting the Objection—Substituting Home Trade for Foreign Trade

The protectionist line of thought developed and refuted above has led up to a form of argument which has frequently been employed of late, and presents a most specious appearance. In effect, it is identical with the argument noticed in the preceding paragraph, and the

answer to it there set forth is conclusive. Nevertheless, we must look at it again in its new dress, as people who are not quick at detecting disguises may be deceived by its new dress.

The case is stated thus, a particular instance being taken. We place an impost on foreign boots and the importation of boots becomes less. Then more English labour will be engaged in making boots for home consumption. Then fewer English goods will be exported. Granted, respond the protectionists who rely on the new form of argument, but the things previously exported may continue to be produced and, instead of being exported, be used to pay the extra labour now engaged in making boots. The arrangement, it is insisted, is simple enough. We now import, say, 100,000 pairs of boots from America, and produce 100,000 hats to pay for them. If we ceased to buy these boots from America, but bought them from France instead, we should still have to pay for them with the 100,000 hats; and so no English hatters would be thrown out of work. Nor need English hatters be thrown out of work if we transfer our buying from America to Leicester instead of to France, since payment for the boots would still be necessary. The 100,000 hats would still be required to buy the 100,000 pairs of boots. So no English hatters would be thrown out of work, but as more English bootmakers would be needed to make the extra 100,000 pairs of boots, some of the unemployed would be absorbed in industry.

In this reasoning hats and boots have, of course, been used for the sake of simplicity. The argument remains the same in substance if commodities of many kinds be substituted for hats and boots. Hence, it is only to quibble to object that the new bootmakers could not live on hats alone.

The New Argument Refuted

A refutation of the above thesis may be offered which is substantially identical with the refutation of the reasoning which supposed imports to be paid for with bullion instead of with exports. Returning to the "boots and hats" terminology for the sake of simplicity, we may put the natural response of the economist thus:— If it be possible by means of import duties to set, say, 1,000 of the unemployed permanently at work making annually 100,000 pairs of boots which were previously imported, their pay consisting in the 100,000 hats previously exported to pay for the 100,000 pairs of boots, why is it not possible to set 500 of these 1,000 unemployed to make boots for the 1,000, and the other 500 to make hats for the 1,000, and thus avoid the need of tariffs altogether? The two proposals come to exactly the same thing. Generalised—giving up now the "hats and boots" terminology, which may make the reasoning on both sides look unpractical, since the conception of persons supporting one another with hats and boots alone is ridiculous—what the matter comes to is this: that if it be possible to find work for the unemployed by our ceasing to buy a certain number of things from abroad, it must be equally possible to find work for the unemployed by setting them to provide the means of satisfying their own and one another's wants without any Protection.

Then why is it not done? For the simple reason that the "employable" unemployed do not consist of a *reserve armée,* the members of which are always more or less the same persons. The membership of the body of "employable" unemployed is constantly varying. Individuals are passing daily into it and out of it. It is like the water in the Thames, which is always there

but never the same; which is constantly being recruited by evaporation from the sea, but it is as constantly getting back to the sea. If some of the unemployed were absorbed in bootmaking through the exclusion of some foreign boots, there would soon be just as many unemployed as before, because economic changes as before would necessitate industrial readjustments, because depressions would come as before, and there would still be the seasonal trades. The only difference would be that almost certainly we should have to pay appreciably more for our boots. Supposing the import duties to be temporarily efficacious—though even their temporary efficaciousness could not be relied upon in view of the fact that they might administer shocks to other trades, as we have seen—in a short time they would have to be raised and extended to keep down the numbers of the unemployed. So we should logically be urged on to place more and more restrictions on foreign trade till we reached prohibition and no foreign trade was left; and then, shortly after our last step had been taken, the numbers of the "employable" unemployed would be at least as great as when we began, and we should all be vastly poorer. And because workmen would be poorer, and the least efficient would earn only a pittance, there is a probability that more of the "employable" unemployed would be reduced to distress, and that more "unemployable" unemployed would appear.

This is not to prove, of course, that the numbers of the unemployed cannot be reduced through the action of labour exchanges which helped them to find work, or that temporary work could not be arranged for those temporarily unemployed—though this is a matter for the discussion of which space is lacking here—but it is to prove that the attempt to force the unemployed into employment by protecting home markets would leave

the unemployed problem as it was, except for the reactions upon it of lower wages described above, which, if they were appreciable, would make it worse.

Is Unemployment Caused by the Competition of Ill-paid Foreign Labour?

Not a few people have feared that they might be thrown out of work through the competition of ill-paid foreign labour. In the United States, in particular, much of the popular support of Protection has arisen from such a fear. That there must be a fallacy somewhere in the implied reasoning, however, is evident from the fact that, according to it, the country with all-round high wages would import much and export nothing—that is, buy for nothing—which is impossible.

Given an elementary knowledge of the theory of foreign trade, no extraordinary insight is needed to detect the fallacy. It is a two-fold fallacy. It consists, first, in the assumption that increased imports must result in more unemployment: the incorrectness of this assumption has been fully demonstrated above. It consists, secondly, in the belief that the low level of a foreign country's wages is the cause of its exports—which is equally incorrect. The level of a country's wages is not the cause of its exports, but the consequence of its productive conditions, which may be made more conducive to high wages by means of foreign trade. Wages vary internationally as the relative efficiencies of workpeople at different places and the means of production, including organisation, at their disposal. The Japanese cotton-weavers get lower real wages than the English cotton-weavers, because at cotton-weaving the English are more efficient and work with more capital per head, and enjoy other facilities, both industrial and commercial. If relatively low wages must stimulate exports, how does the

protectionist explain the exports to countries with low wages of goods manufactured by the relatively well-paid English labour? But, of course, changes keep taking place in the amount, direction and nature of the world's foreign trade, and these changes are usually preceded by alterations in the relative levels of wages in the various industries of the various countries affected, as they would be were all countries strongly protected. But, ultimately, such a position is reached in international division of labour that each country exports the commodities in the production of which it has a comparative, but not necessarily an absolute, advantage.

In the preceding paragraph "wages" have been used to mean "real wages"—that is, the amount of commodities and services which money wages will buy in view of the level of prices where they are spent. The level of money wages—or "nominal wages," as they are sometimes called—follows the determination of the level of real wages. Bullion gets to be so distributed internationally that at the position of trading equilibrium the money costs of international rivals selling in the same market—including costs of carriage and tariff charges—are rendered about equal. We need not enter into the complications caused by inconvertible paper currencies, as no new principles are involved.

Tariffs which Reduce "Real" Wages Raise "Nominal" or Money Wages

The relatively low level of a foreign competitor's money wages—the real wages corresponding to which might be high—may be caused by the relatively low tariffs, or absence of tariffs, in the country with the low money wages, as compared with the high tariffs in the country with the high money wages. Therefore, when Protection is sought against these low money wages abroad,

it may be merely the effects of tariffs from which the protectionists are trying to escape by means of higher tariffs. As they succeed and get higher tariffs the greater, proportionally, become these effects. Protectionists in this case are trying to run away from their shadows. Every trader knows that when a country produces and imports the same thing, at the normal division of the trade, the home cost of production expressed in money must approximately exceed the foreign cost of production by the import duty plus the cost of carriage. When tariffs are imposed, flows of bullion internationally bring this result about.

The Allegation that Free Trade drives out Capital and so Renders Unemployed the Labour which it Might Employ at Home

It is constantly alleged that tariffs keep capital in the country that would otherwise go abroad, and that when it is kept in the country it employs labour which would not be employed otherwise. The answer is two-fold: first, that the exportation of capital cannot cause less employment in the long run, though it may cause lower real wages; secondly, that tariffs may be expected to drive more capital out of an industrial country indirectly than they succeed in keeping at home directly. The first answer needs no proof after the foregoing examination of the causes of unemployment. In support of the second answer I may quote Professor Marshall. In his presidential address to Section F of the British Association in 1889, referring to the discussion excited by the McKinley Bill, he said: "An old fallacy has reappeared in a new form in an argument which has attracted much attention both here and in America, that the Act must have benefited America, because it has led to the investment of a few hundred thousand pounds of British

capital in starting tinplate and lace works, etc., in America. Protection always puts capital into some industries; that movement 'is seen.' But before we can regard it as a net gain we must make sure that there is not an equal or greater, though 'unseen,' leaking of capital out of other industries which the new tariff indirectly injures; and for every £100,000 that the Protection policy causes to be sent from England to be invested in American factories, it probably keeps away at least £1,000,000 that would otherwise have been sent there to be invested in railways and agriculture."

This completes our examination of what I have called naïve views as regards the bearing of tariffs on employment. *The conclusion is that no case is made out for tariffs under this head—not the vestige of a case.*

Inductive Demonstration—Its Dangers

Some protectionists have hoped to find inductive support for the view that tariffs reduce unemployment. But their excursion into fact had ended in a repulse at every point. Before examples of the evidence put forward are furnished, it is important that the difficulties in the way of realistic comparisons should be appreciated. In the first place, figures which purport to represent the same things frequently fail to do so. In the second place, the circumstances of different climes and nations are so divergent that only a quaking basis is afforded by them for comparison.

Trade Union Returns of Unemployment

German trade union returns of unemployment have been triumphantly adduced to show that the percentage of unemployment is less in Germany than in England, and the difference has been attributed to the Free Trade policy of England and the Protectionism of Germany.

Thus, the average percentage of unemployed among the trade unionists in the two countries was officially returned as follows for the first six months of 1907, 1908 and 1909:—

	England.	Germany.
1907—January to June	3·7	1·6
1908 ,, ,,	7·8	2·9
1909 ,, ,,	8·2	3·3

The most telling response, perhaps, is to quote the trade union returns of unemployment for the United States, another highly protectionist country. The following are the returns of Labour organisation in Massachusetts:—

	Percentage of Members idle.
March, 1908	17·9
June, 1908	14·4
September, 1908	10·6
December, 1908	13·9
March, 1909	11·4
June, 1909	6·4

These are by no means the highest percentages returned in the United States in this period. If it is a correct inference from the first figures that Protection has reduced unemployment, it is equally a correct inference from the latter that Protection has enormously increased unemployment.

As a matter of fact, a good part of the explanation of the discrepancies is to be found in the fact that the figures compared are not comparable. Against the comparison drawn between the German and English trade union returns the Board of Trade has repeatedly warned us. To say this is sufficient, without entering into details to show why the German trade union returns of unemployment must yield a very incomplete result as compared with the result yielded by the English trade

union returns. As it has been put, to say that unemployment among trade unionists must be less in Germany than in England, because the average of percentages of unemployment returned by German trade unions is invariably less than the average of similar percentages returned by English trade unions, is no less absurd than to say that a room the temperature of which is 30 degs. Fahrenheit must be warmer than one of which the temperature is 20 degs. Centigrade (which is really equivalent to 68 degs. Fahrenheit).

Evidence does not Indicate that Unemployment is less Severe in Germany than in England

And, as a matter of fact, there is no reason to suppose that unemployment is usually more severe in England than in Germany. One piece of evidence may be extracted from the German sick fund returns read in the light of the indication of variations in unemployment shown by the trade union returns. Contributions to the sick funds are exacted from the bulk of German industrial wage-earners except when they are out of work or drawing benefits. An examination of the German sick fund returns shows, when allowance is made for the increase in population, that on an average the increase of the unemployed between the first six months of 1907 and the first six months of 1909 amounted to about 4½ per cent. of the class of male industrial wage-earners. The trade union returns show that in this period unemployment doubled. Hence it would seem that the average of the unemployment in the first half of 1909 must have been about 9 per cent. I do not rely upon this result. I give the calculation merely to indicate that the true percentage was probably nearer 9 than the 3·3 (the trade union return) put forward above as the figure.

There is another piece of evidence. In December, 1909, Mr. Leonard Hobhouse drew attention to the possibility of getting an approximately correct comparison of unemployment in London and Berlin out of the returns of the London Distress Committees and the returns of unemployment in Berlin obtained by voluntary registration, and showed that the comparison indicated that the percentage of unemployment was appreciably higher in Berlin than in London. Professor Chapman, following up the suggestion, published the results of a more extensive comparison in the *Manchester Guardian* of January 4th, 1910. I quote from his letter: "There are many distress committees in this country, outside London, which publish the numbers of those 'known to be out of work' through voluntary registration; and in Germany between the months of October, 1908, and February, 1909, nearly forty 'censuses' of unemployment were taken, in ten of which the system adopted was to open offices for voluntary registration. I give beneath the results arrived at by these ten German censuses, expressed approximately as proportions of the populations in the areas to which they relate, according to the German population census of December, 1905:—

	Unemployed per Thousand of Population.
"Augsburg (January)	4
Berlin (November)	13
Berlin (February)	6*
Dresden (February)	9
Heidelberg (December)	3
Karlsruhe (December)	4
Munich (December)	15
Pforzheim (December)	5
Wiesbaden (November)	6
Zittau (February)	5

"The average of these figures is about 8 per 1,000.

* The results of the census of February in Berlin are known to be more defective than those of the census of November.

"With them we may compare similar figures obtained by stating the returns of distress committees in England for the end of November, 1908, as proportions of the populations in the districts to which they refer according to our census of 1901. Such English figures, covering about sixty districts, range, I find, fairly continuously from 2 per 1,000 at Blackburn and Oldham to 14 per 1,000 at West Hartlepool and for outer London—the figure for London (county area) is 8—and 15 per 1,000 at Brighton, Gorton and South Shields. The only figures above 15 are: 20 per 1,000 for Coventry, and 34 per 1,000 for Barrow, in which two places conditions were very exceptional at the end of 1908. The average of the returns of English distress committees (including those of Coventry and Barrow) work out at about 8 per 1,000 approximately; that is, to the same as the German figures, which, however, cover a smaller and less representative area.

"It must be remembered, as Mr. Hobhouse argues, that registration with English distress committees ought to be more exhaustive than that recorded by the German censuses, because registration by the English distress committees goes on continuously; but we cannot, of course, affirm that it is, since counteracting causes may also have operated. The percentage of error in the comparison is no doubt high. Voluntary registration may lead to quite different percentages of recorded unemployment among people of different places and in different industrial conditions. Moreover, the population figures used refer to 1901 in England and 1905 in Germany, and in some cases there is doubt as to the correspondence between the population census area and the unemployment census area. Nevertheless, the figures given constitute convincing additional testimony that Germany does not enjoy that comparative immunity from unemployment

which has of late been alleged by some writers and speakers. If the evidence adduced up to the present did establish that unemployment was greater in Germany than in England, it would not, of course, be proved thereby that Protection increased unemployment."

Emigration Figures

Some persons have tried to get evidence relating to the effect of tariffs on unemployment from emigration figures. The comparisons which have been instituted we need not consider, for clearly they prove nothing. There is a greater disposition in some races to seek new lands than in others. New countries attract rather than furnish emigrants, whatever their fiscal policies; countries which have been successful in colonising naturally send out more emigrants than countries which have been relatively unsuccessful in colonising; and the greater the density of population of a country, the higher would one expect the percentage of its emigration to be.

Conclusions

Induction and deduction have equally failed to show that tariffs help to reduce unemployment. Indeed, *the balance of evidence is in favour of the view that tariffs tend to increase unemployment.* We may say without hesitation that the way of attack on the unemployed problem is certainly not through tariff policies. We must strike at those roots which it is possible to remove without doing more harm than good. These roots we must seek among the incidents bearing on recurrent depressions, on the seasonality of some trades, on industrial readjustments and unadaptability, among the obstacles in the way of bringing together the demand for and supply of labour, in the casual labour system, and in the careless placing of the rising generation when they start work.

How to deal with the unemployment which cannot be prevented, how to aid those temporarily out of work and in distress, or find them temporary occupation until they get work again, or train some of them so as to improve their chances of moving into satisfactory positions—is a problem not impossible of solution, but one too large for treatment in this pamphlet, the object of which is merely to trace the bearing of tariffs on employment and examine the conflicting views which have been put forward.

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